

UNITED DRUG, INC.

AND

SUBSIDIARY COMPANIES

ANNUAL REPORT

December 31, 1934

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UNITED DRUGS, INC.

AND

SUBSIDIARY COMPANIES

ANNUAL REPORT

For the Year
Ending December 31, 1927

January 1, 1928

March 4, 1935.

To the Stockholders of United Drug, Inc.:

There is submitted herewith the Annual Report of your Company, presenting a consolidated balance sheet, profit and loss and general reserve statements, together with surplus reconciliation, for the year ending December 31, 1934.

These statements, while comparable with the first annual statement sent you a year ago, reflect certain changes; first, on account of the acquisition of Liggett Drug Company, Inc. and related businesses, and second due to changes in form required by legislation enacted in 1934 applicable to companies whose securities are listed.

The capital stock of the corporation is temporarily registered on the New York Stock Exchange, and it is the intention of the Company to apply for permanent registration of the stock in accordance with the requirements of the Securities Exchange Act of 1934.

Earnings for 1934, after providing for additional reserves, Federal taxes, bond interest and loss on guaranteed leases, amounted to \$1,833,959.78, which is \$1.31 per share on the capital stock of the Company. Of this amount, however, \$628,412.22 was earned from non-recurring transactions, leaving operating profits at 86c per share.

The earned surplus, which you will remember started from zero on September 1, 1933, now stands at \$2,690,197.35.

It will be noted from the balance sheet that \$750,000 of bonds were retired in 1934 and that the Company had in its treasury bonds amounting to \$2,526,300 as of December 31, 1934—an amount sufficient to take care of over three years' sinking fund requirements.

As of January 1, 1934, the Company acquired all of the assets (subject to Trustees' liabilities) of the Louis K. Liggett Company, Bankrupt, and as of January 31, 1934 assets of certain subsidiary estates. Previously, as of September 30, 1933 all of the assets (except cash) of The Owl Drug Company, Bankrupt, had been acquired.

Prior to and during bankruptcy of these companies, locations had been lost, maintenance had been deferred and much equipment had become obsolete. In acquiring the businesses, it was necessary to provide for these factors, for relocating many stores and for replacing lost locations to the extent required for well-rounded, profitable chains.

Therefore, in opening the books of the companies formed to operate the acquired properties, store fixtures and intangibles were entered at \$5.00, and general reserves were set up to cover the expenses of rehabilitating the businesses, for changes which might be required in the initial values, and to meet other charges and readjustments in connection with the acquisition of the properties. The balance in these reserves on December 31, 1934 was \$1,775,783.55, and a condensed schedule of charges and credits is included in this report.

It is intended to provide out of profits each year for maintenance and replacement of store-fixtures and for moderate expansion in number of stores. For these purposes, operations were charged during 1934 with \$801,158.99, of which \$113,996.25 was for maintenance and

\$100,000 for future expansion. Extraordinary expenditures for deferred maintenance, equipment replacements, additional stores, etc. were charged to general reserves during 1934, and it is intended to continue this policy throughout the rehabilitation period.

The acquiring of the retail businesses has materially changed the statement of gross volume as compared with last year's report. There are no figures that are comparable in connection with the retail stores. However, the United Drug Company, the parent manufacturing company, showed an increase in volume exceeding 18% as compared with 1933 and all of its subsidiaries maintained a substantial increase in their gross volume. As a whole these manufacturing companies balanced the budget set up for them at the beginning of the year, and while they have had many problems to meet, brought about by their association with a great number of NRA codes, they have, without increasing their selling prices, justified the net profit budgeted for the year.

Many organization changes have been made. The stationery plant at Long Island City, N. Y. has been consolidated with the stationery plant at Worcester, Mass., with a new addition in the latter city, which is now in operation.

Your Company has engaged very extensively in research work in two ways—first, in the scientific end of production in all departments, and a new research laboratory is being constructed solely for that purpose; and second, in connection with the Rexall stores which have the agency for our trade-marked products, we have established a Survey Department for developing and improving the merchandising methods of these stores.

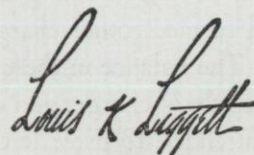
While the cost of both of these extensive activities is being charged directly to operating expense, and we are not looking for returns from either for a year or two, they have produced sufficient results so far to justify our belief that they have developed more rapidly than anything we have inaugurated in recent years in our manufacturing companies.

In January, 1934 we opened a warehouse in Atlanta, Ga. to serve the Rexall agents in the Southeast and we enjoyed an increase in volume of 51% over 1933 in that district.

There has been no disappointment in the year 1934 in the operations of the retail stores owned by Liggett Drug Company, Inc. and The Owl Drug Co.

We have set for ourselves a very active program of development for 1935, believing that regardless of conditions as they may exist, we must accept them and go about our daily work. We do this in our business because our future commitments are different from those of many other industries that might be jeopardized by following such an active policy of expansion as ours.

Respectfully,

A handwritten signature in dark ink, reading "Louis K. Liggett". The signature is written in a cursive, flowing style with a large initial "L".

President.

PRICE, WATERHOUSE & CO.

75 FEDERAL STREET

BOSTON

March 4, 1935.

TO THE BOARD OF DIRECTORS OF
UNITED DRUG, INC.:

We have made an examination of the consolidated balance sheet of United Drug, Inc. and its subsidiary companies as at December 31, 1934, and of the consolidated statement of profit and loss and earned surplus and statement of general reserve for the year ending on that date. In connection therewith, we examined or tested accounting records and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts, but we did not make a detailed audit of the transactions. We have been furnished with accounts of United Drug Company, Limited (England), a wholly owned subsidiary, which have been certified by other public accountants.

In our opinion, based upon such examination and subject to the explanations contained in the president's letter to which reference is made in the footnote attached to the balance sheet, and the acceptance of the accounts of United Drug Company, Limited (England), as certified by other public accountants, the accompanying consolidated balance sheet and related statement of profit and loss and earned surplus and statement of general reserve set forth the position of United Drug, Inc. and its subsidiary companies at December 31, 1934, and the result of their operations for the year ending on that date, on the basis indicated therein.

PRICE, WATERHOUSE & CO.

UNITED DRUG AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS:

Cash in banks and on hand	\$ 9,552,566.19	
Short term notes and call loans	1,903,800.00	
Miscellaneous marketable securities (<i>value based upon December 31, 1934</i> <i>market quotations—approximately \$2,684,000</i>)	1,361,410.66	
Accounts and notes receivable:		
Customers' accounts and notes	\$3,925,819.53	
Miscellaneous	574,200.79	
	<u>\$4,500,020.32</u>	
Less—Reserve for doubtful accounts and notes, discounts, etc.	460,486.98	4,039,533.34
Inventories of merchandise, partly finished stocks, materials and supplies as certified by responsible officials (<i>at cost, not exceeding</i> <i>market</i>)	<u>17,826,739.87</u>	<u>\$34,684,050.06</u>

INVESTMENTS AND ADVANCES, ETC.:

Customers' notes receivable and advances, less reserve of \$25,000	\$ 288,729.47	
Miscellaneous advances, claims and deposits including \$133,424.20 due from directors and employees	397,382.51	
Investment in affiliated company, at cost	100,000.00	
Miscellaneous investments, at or below cost	<u>252,345.03</u>	<u>1,038,457.01</u>

CAPITAL STOCK OF UNITED DRUG, INC.—15,031 shares owned by subsidiary company, at cost		183,919.01
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PROPERTY ACCOUNTS—at written down values (*including at a nominal amount of \$5, store fixtures and equipment of Liggett Drug Company, Inc. and The Owl Drug Co.*)*

Land, buildings and building fixtures	\$ 8,488,699.45	
Machinery and equipment, etc	<u>8,278,469.50</u>	
	<u>\$16,767,168.95</u>	
Less—Reserve for depreciation	<u>7,703,273.45</u>	<u>9,063,895.50</u>

PREPAID INSURANCE, TAXES, RENT, ETC. AND ADVERTISING SUPPLIES		436,113.97
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GOODWILL, TRADE-MARKS, ETC.		<u>10,401,169.38</u>
		<u><u>\$55,807,604.93</u></u>

*Note: The accompanying letter of the president to the stockholders of United Drug, Inc. contains a statement of the assets and liabilities of the Liggett Drug Company, Inc. and The Owl Drug Co. in connection with the general business of United Drug, Inc.

DRUG, INC.
RY COMPANIES

SHEET—DECEMBER 31, 1934

LIABILITIES

CURRENT LIABILITIES:

Accounts payable, accrued expenses, etc.	\$ 5,011,299.19	
Note payable to bank—subsidiary company	29,499.59	
Accrued interest on funded debt	536,613.97	
Amount owing to affiliated company	26,500.68	
Provision for Federal and foreign income taxes on 1934 income.	350,096.33	\$ 5,954,009.76

FUNDED DEBT:

Twenty-five year 5% debenture bonds of United Drug Company, due March 15, 1953:		
Authorized and issued, \$40,000,000, less \$750,000 retired.	\$39,250,000.00	
Less—In treasury (including \$750,000 principal amount available to meet the sinking fund deposit due March 15, 1935)	2,526,300.00	
	<u>\$36,723,700.00</u>	
First mortgage bonds of United Chocolate Refiners, Inc. due January 1, 1946	425,000.00	37,148,700.00

RESERVES:

General reserve (for reorganization expenses and expenses of reconditioning and replacing stores of domestic retail companies, etc.)*—per accompanying statement	\$ 1,775,783.55	
For maintenance and replacement of fixtures and equipment	557,024.93	
For expansion in the number of retail stores	100,000.00	
For contingencies, after crediting in 1934 an excess amount of \$123,600 carried in reserve for intercompany profit in inventories, and deducting charges amounting to \$106,028.97 covering legal expenses and adjustments in connection with reorganization of subsidiary companies	271,808.99	2,704,617.47

CAPITAL STOCK:

Authorized—1,400,560 shares, par value \$5 each.	
Issued, or to be issued in exchange for undeposited shares of Drug Incorporated—1,400,560 shares	7,002,800.00

CAPITAL SURPLUS:

Balance December 31, 1933, being the excess of net assets of United Drug Company and subsidiary companies as of September 1, 1933 over the par value of capital stock of United Drug, Inc., less organization expenses charged off, etc.	307,280.35
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EARNED SURPLUS, representing net earnings of United Drug Company and subsidiary companies for the period from September 1, 1933 to December 31, 1934 which have not been distributed to the parent company, United Drug, Inc. (including \$563,857.43 of earnings of United Drug Company which have been allocated to capital surplus on its books)—per accompanying statement	2,690,197.35
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CONTINGENT LIABILITIES:

For portion of such liabilities as may result to Drug Incorporated.

\$55,807,604.93

an outline of the policy which has been adopted and the method of accounting which has been
general reserve and the recording of store fixtures and equipment on the books at nominal amounts.

UNITED DRUG, INC. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS FOR THE YEAR ENDING DECEMBER 31, 1934

Sales, less returns, allowances and discounts		\$78,439,488.72
Cost of goods sold, selling, general, and administrative expenses (including depreciation of \$601,613.10 and, in lieu of depreciation for domestic retail companies, provision for replacements of fixtures and equipment, expansion in the number of stores, etc. amounting to \$687,162.74) . . .		74,960,525.54
Profit from operations		\$ 3,478,963.18
Other income:		
Income from investments	\$ 131,076.41	
Interest on bank balances, notes receivable, etc.	55,608.04	
Excess of proceeds from the sale of investments over book value thereof	733,084.95	
Recovery in respect of claims against the Director General of Railroads (net)	77,149.43	
Miscellaneous	38,694.52	1,035,613.35
		\$ 4,514,576.53
Other charges and income taxes:		
Interest on funded debt	\$1,885,076.43	
Loss from operation of leases acquired by United Drug Company, as guarantor, from Louis K. Liggett Company, bankrupt . . .	423,894.44	
Miscellaneous	12,593.68	
Provision for Federal and foreign income taxes	359,052.20	2,680,616.75
Net profit for the year		\$ 1,833,959.78
Consolidated earned surplus balance, December 31, 1933	\$ 750,592.65	
Discount on debenture bonds of United Drug Company acquired during the year	105,644.92	856,237.57
Consolidated earned surplus balance, December 31, 1934, carried to balance sheet		\$ 2,690,197.35

Note: The above figures include the 1934 operations of the Liggett Drug Company, Inc., organized as of January 1, 1934, and its subsidiaries. The operations of the business taken over by these companies were not included in the consolidated statement of profit and loss which was attached to the December 31, 1933 annual report to stockholders.

UNITED DRUG, INC. AND SUBSIDIARY COMPANIES

STATEMENT OF GENERAL RESERVE (CARRIED ON THE BOOKS OF LIGGETT DRUG COMPANY, INC. AND THE OWL DRUG CO.) DECEMBER 31, 1934

Balance of reserve of The Owl Drug Co. at December 31, 1933	\$ 471,088.73	
Amount recorded on the books of Liggett Drug Company, Inc. at time of acquisition of the net assets from Trustees in Bankruptcy	1,536,643.77	
	<u>\$2,007,732.50</u>	
Add:		
Recoveries in respect of claims against bankrupt companies—not pre- viously reflected in the accounts	\$531,759.41	
Other recoveries and miscellaneous adjustments (net)	<u>180,702.61</u>	712,462.02
		<u>\$2,720,194.52</u>
Deduct:		
Expenditures made in connection with the rehabilitation of the "Liggett" and "Owl" chains of drug stores and certain other charges growing out of the reorganization of those chains:		
Cost of (1) opening stores in one city to replace stores closed in others, (2) replacing closed stores with new stores in the same city, (3) enlarging or otherwise rebuilding existing stores, (4) closing abandoned stores	\$604,722.28	
Reconditioning stores, repairing equipment, storage charges for equipment, etc.	209,601.93	
Charges on account of inventory standardization	<u>130,086.76</u>	944,410.97
Balance December 31, 1934		<u><u>\$1,775,783.55</u></u>

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GEORGE M. GALES		Vice-President
J. A. GALVIN		Secretary and Treasurer
W. NEWLIN MITCHELL		Assistant Treasurer

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GEORGE C. HAIGH		Vice-President, Bank of the Manhattan Company, New York
LOUIS K. LIGGETT		President, Boston
CHARLES S. MUNSON	. . .	President, United States Industrial Alcohol Company, New York
JAMES L. RICHARDS	. . .	Chairman Board of Trustees, Massachusetts Gas Companies, Boston
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GUARANTY TRUST COMPANY OF NEW YORK, NEW YORK
THE UNION TRUST COMPANY OF BOSTON, BOSTON

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THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK, NEW YORK
THE NATIONAL SHAWMUT BANK OF BOSTON, BOSTON

Counsel

GASTON, SNOW, SALTONSTALL AND HUNT, BOSTON

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DISTRICT

Prothonotary
Superior Court